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DEPT FOR WHA/AND,EPSC AND OES/ETC,ENV
BRASILIA FOR ESTH HUB - J Story
USAID FOR LAC, EGAT
USTR FOR B HARMANN, M BURR
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SUBJECT: Peruvian Export Association Launches Forestry Plan

¶1. SUMMARY: The Peruvian Association of Exporters, ADEX, announced on March 8 its initiative to revolutionize Peru's forestry program. The ADEX plan, which received supporting speeches from the Ministry of Production and other government representatives, has multiple goals: increase forestry exports, create jobs/reduce poverty, reduce illegal logging; sustain forest resources and create a new, effective corps of forestry inspectors. The GOP natural resources agency currently charged with logging supervision is, not surprisingly, against the initiative. With illegal logging still rampant in Peru, this is a welcome initiative. END SUMMARY.

¶2. Econoff and USAID environmental officer attended a presentation on March 8 by the Peruvian Association of Exporters (ADEX) on its plan to create a legal, expanding and sustainable forest products industry. Vice Minister of Production Antonio Castillo gave an enthusiastic speech in favor of the plan. Other participants in the presentation included representatives of the Regional governments from wood-producing areas, the National Institute of Natural Resources (INRENA, local wood products associations and civil society forestry stakeholders. The presentation, which outlined industry actions, also provided a series of recommendations for the GOP.

¶3. ADEX president Luis Vega described how his association views the appropriate expansion of forest wood exports given Peru's general problems. He listed the main social ills as poverty, lack of jobs, disparity between urban and rural wealth and narcotrafficking. Illegal logging concentrates many of these problems, denying income to rightful owners of resources, harming rule of law, reducing state revenue and taxing capacity of state to regulate the economy. While commercial wood-producing forests comprise around 80 percent of Peru's territory, wood production, domestic and exports, account for only 1 percent of GDP and represent enormous potential for export-driven expansion. ADEX President Vega stressed that improved law enforcement would also lead to a decrease in narcotrafficking; he noted aside from the deforestation associated with expanded coca production, the precursor chemicals used to make coca paste and cocaine are soil contaminants that are bad for tree growth. In addition, drugs are increasingly being discovered in wood

export shipments.

¶4. Consultant Mauro Rios developed the ADEX plan and explained the barriers to wood industry development: Peru lacks tree plantations, which have been successfully developed in neighboring countries such as Chile. The mechanization of Peru's forest products industry lags behind other countries. Deforestation is rampant; most of it is illegal and motivated by poverty. Exacerbated by the illegal logging for profit, deforestation is facilitated by a failure of institutional control over forestry practices.

¶5. The ADEX plan envisions a Vice Ministry of Forestry Production in the Ministry of Production, promoting production of forest products while effectively sustaining the resource. INRENA would have authority in forested areas over animal life, genetic and water resources, but control over forestry concessions, management and law enforcement would be moved to a new corps of Forest Guards under the new Vice Ministry. ADEX would lobby for tax incentives to promote plantations. In the medium term, ADEX would work with regional and local governments and the Ministry of Transportation to help finance paving of road systems to bring wood products to market. ADEX President Vega made an impassioned plea to move forward with the Peruvian Trade Promotion Act (PTPA), which he described as a vital step for stimulating the wood products industry; aside from the obvious export benefits, the PTPA would enable ADEX members to import affordable logging and sawmill machinery.

¶6. INRENA Chief Leoncio Alvarez rejected the ADEX proposal, stating that it would cast aside all of the INRENA forestry oversight efforts in place. ESTHoff and USAID have asked for a meeting with Alvarez to clarify his position and to discuss reports of corruption in forest concession oversight.

¶7. COMMENT: It is unusual for an industry to ask to be effectively regulated. In this case, ADEX has recognized that the lack of effective government oversight is hurting legitimate producers. We are aware of problems with the forest concession process and the continued prevalence of illegal logging. We will explore how the ADEX plan can fit into implementation plans for the PTPA and the accord's Environmental Cooperation Agreement (ECA). ADEX and its allies in this initiative are important partners for promoting the PTPA, fighting narcotrafficking (especially as wood products continue as a media for smuggling cocaine) and promoting sustainable growth in Peru. The prospect of the private sector promoting road improvement is intriguing, as the GOP and regional governments have largely failed to adequately improve market access roads.

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